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UNCLAS E F T O SECTION 01 OF 05 BEIJING 000264

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STATE PASS CEA FOR BLOCK, SLAUGHTER  
STATE PASS USTR FOR STRATFORD, ALTBACH, WINTERS, CELICO  
STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER; SAN  
FRANCISCO FRB FOR CURRAN/LUNG; NEW YORK FRM FOR DAGES  
NSC FOR RHUNTER/JSCHRIER/KTONG  
TREASURY FOR OASIA/INA DOHNER/HAARSAGER/BAKER/CUSHMAN  
TREASURY FOR TAIYA SMITH  
DOE FOR INTERNATIONAL/PUMPHREY AND GEBERT  
EPA FOR INTERNATIONAL/AYRES, FIDLER, MCASKILL  
HHS FOR STEIGER, ELVANDER AND BHAT  
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E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [CVIS](#) [SENV](#) [ENRG](#) [CH](#)

SUBJECT: SED SESSION FOUR: PROMOTING TRADE AND INVESTMENT  
AND REMOVING BARRIERS

REF: A. BEIJING 259

[1](#)B. BEIJING 262

[1](#)C. BEIJING 263

[1](#)1. (SBU) Summary: In the December 14 Strategic Economic Dialogue (SED) session on promoting trade and investment, Secretary of Commerce Carlos Gutierrez described the mutual

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benefits of United States-China trade, urged China to open further its services market, and underscored the need to avoid protectionism. Commerce Minister Bo Xilai challenged United States concerns about the trade deficit, market access and IPR protection and raised Chinese concerns about USG restrictions on technology exports and designation of China as a non-market economy (NME). United States Trade Representative (USTR) Ambassador Schwab emphasized the importance of regulatory transparency. People's Bank of China Governor Zhou explained Chinese steps to open its financial sector, attributing remaining restrictions to its desire to maintain financial stability. Senior Vice Foreign Minister Yang Jiechi advocated liberalizing United States' visa procedures to promote tourism and business exchanges. Secretary of Treasury Henry Paulson emphasized the importance

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of opening the Chinese market to foreign investment. End Summary.

WU YI: ADVOCATING MUTUAL UNDERSTANDING AND COOPERATION  
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[1](#)2. (SBU) Vice Premier Wu Yi started the fourth session of the Strategic Economic Dialogue (SED) by recommending dealing with inevitable trade frictions by engaging in a dialogue

from a long-term, non-political perspective, and increasing mutual understanding and cooperation.

SECRETARY GUTIERREZ: U.S. SERVICE EXPORTS TO CHINA SHOULD

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RISE  
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13. (SBU) Commerce Secretary Carlos Gutierrez said we must improve the composition of United States exports to China by dramatically increasing exports of services, noting that we will not narrow the trade deficit until we have done so. He urged China to further open its services markets to foreign participation.

14. (SBU) The trend toward protectionism in both countries must be avoided, Secretary Gutierrez declared. To do so, China needs to become more of a market economy through enlarging the private sector, increasing transparency and strengthening IPR enforcement. Currently, 75 percent of IPR-related seizures by United States Customs originate from China and Hong Kong. To enhance our mutual understanding, we should discuss the visa reciprocity issue with a view to increasing travel of our citizens between our countries. The United States also wants to re-open discussions on civil aviation to increase flights to and from China.

MINISTER BO: PAINTING A ROSY PICTURE OF TRADE RELATIONS  
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15. (SBU) Commerce Minister Bo Xilai predicted that China would surpass Japan as the United States' most important trading partner in Asia in the next year or two and speculated that in ten years' time, we may become each other's largest trading partner.

16. (SBU) Minister Bo challenged three United States concerns about its trade with China. First, while acknowledging that the United States trade deficit is large and growing, Bo

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asserted that, taking into account lower costs for United States consumers and the profits of United States companies in China, both sides benefit equally. The deficit itself is caused mainly by a shift in the assembly of goods from Japan, South Korea and Taiwan to China, he argued. Second, China has made great efforts to protect intellectual property rights (IPR), but needs more time as its legal and public education systems lag behind those of more developed economies. China will continue to increase IPR protections in order to protect its own industries, not just to respond to foreign criticisms. Third, China had fully met, and even exceeded, its WTO accession commitments. Bo noted that United States exports to China have increased dramatically, nearly 28 percent annually, since China's WTO accession in December 2001.

17. (SBU) Minister Bo urged the United States to lift controls on high-technology exports and to rescind China's designation as a non-market economy. According to Bo, over the past five years, the share of United States high-tech products as a percentage of overall Chinese high-tech imports declined from eighteen to eight percent. Bo encouraged the United States to rescind China's NME designation and expressed concern at the United States Commerce Department's acceptance of a countervailing duty petition. Noting that the United States' six criteria for market economy status are not based on WTO rules, Minister Bo said China would not change merely to meet Washington's "subjective" standards.

BENEFITS OF INCREASED TRADE, INVESTMENT, TRANSPARENCY  
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18. (SBU) USTR Ambassador Susan Schwab emphasized the importance of transparency to bilateral trade and China's own

development. The SED is well suited to tackle trade and investment issues, because many of these problems lie outside the traditional jurisdictions of China's Ministry of Commerce and USTR/USDOC. Deliverables are also important for propelling the dialogue, she underscored. Many United States companies are concerned about the lack of transparency in China's reforms of its postal service, as well as China's apparent intention to give China Post a monopoly, Ambassador Schwab said. She warned of the pitfalls of attempting to pick winners and control competition. The United States' experience with postal reforms proves the value of transparency and competition. United States regulatory changes allowed competition in the express package service sector, which created a new global market and at the same time resulted in a more competitive United States Postal Service. Ambassador Schwab emphasized that the Doha Round provides an opportunity for China and the United States to show leadership in the world economy, noting that no two countries have more at stake in the world trading system.

19. (SBU) Matthew Slaughter of the Council of Economic Advisers stressed the benefits of increased trade and investment, especially in services. Slaughter noted that companies engaged in international trade tend to be the most productive and best paying companies. Today, five percent of the American workforce is employed by foreign companies, but these companies account for 11 percent of GDP and 15 percent of private sector research and development.

#### CHINA'S EFFORTS IN FINANCIAL SECTOR, TECHNICAL STANDARDS

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10. (SBU) People's Bank of China (PBOC) Governor Zhou Xiaochuan explained steps China has taken to open its financial sector, while attributing remaining restrictions to

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the cautious approach adopted following the 1997-98 Asian financial crisis. China has fully lived up to its WTO commitments. China has lifted many restrictions on both incoming and outgoing foreign direct and portfolio investment. Nevertheless, negotiations on China's WTO accession took place in the shadow of the Asian financial crisis. Given the weak state of Chinese banks and capital markets at the time, China's financial sector was not opened that widely to foreigners. This is a legacy we are still dealing with today, Zhou explained.

11. (SBU) Administrator of the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) Li Changjiang outlined steps China has taken to harmonize and increase the transparency of its technical standards. Li also advocated increased exchange of information on standards, asserting that Chinese companies have suffered USD 22 billion in losses since 2001 as a result of technical barriers to trade. Currently, 46 percent of China's standards conform to international norms; the goal is to raise that figure to 85 percent in 2010, Minister Li stated.

#### VISAS, PEOPLE-TO-PEOPLE EXCHANGES

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12. (SBU) Senior Vice Foreign Minister Yang Jiechi advocated changes to United States visa procedures to promote tourism and business travel. China provides many "conveniences" to American visa applicants and has a high issuance rate, but the United States' visa refusal rate is quite high and its visa procedures complicated and time-consuming, Yang claimed. As a result, many Chinese businessmen travel to Japan and Europe instead of the United States and many Chinese students opt to study instead in the United Kingdom, Australia and New Zealand. Out of the 31 million Chinese who traveled overseas in 2005, less than two percent traveled to the United States, Yang stated. He made three specific proposals: 1) eliminate the visa interview requirement for government officials at the Vice Minister-level and above; 2) further open up the

American tourist market to Chinese visitors; and 3) reduce the amount of time required for security checks for visa applicants in science and technology fields.

¶13. (SBU) In response, Assistant Secretary of Transportation Andrew Steinberg explained steps the United States has taken to streamline the visa process, such as instituting internet visa applications and electronic clearances and appointments for tour groups. There has been a 33 percent increase in the number of Chinese visitors to the United States, he stated. A/S Steinberg highlighted that developing bilateral air services would reduce the bilateral trade imbalance by increasing exports of United States services (particularly tourism). Further liberalization in air services would also spur development of the air cargo industry.

#### MOFCOM MINISTER BO TAKES ISSUE WITH USG POSITIONS

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¶14. (SBU) Commerce Minister Bo Xilai's lengthy rebuttal to the United States statements included the following points:

-- China is willing to work with the United States to increase trade in services, but China's service sector is already largely open. At the end of 2005, there were more than 270,000 foreign invested enterprises in China. The United States is strong in the services sector, with a USD 2.5 billion bilateral surplus in services trade, but China still needs time to develop its services sector.

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-- China has "scrupulously" implemented its WTO transparency commitments. He complained that, on barriers to agricultural trade and "national security" barriers to foreign investment, the United States is not transparent.

-- Secretary Gutierrez's figures regarding the percentage of United States Customs IPR-related seizures originating in China and Hong Kong exaggerate their economic impact. While the numbers are high, their value is low. According to 2005 United States Customs figures, only USD 64 million worth of products was seized, out of a total of USD 163 billion Chinese exports to the United States.

-- The market is not a panacea. "Market failures" occur in areas such as IPR enforcement, worker safety, environmental protection and production capacity. Regarding China's steel industry, production thresholds are important both for environmental protection and prevention of excess capacity.

-- United States criticizes merger and acquisition obstacles in China, yet the Lenovo and CNOOC acquisition cases triggered "national security" concerns in the United States.

-- Because China has not been granted Market Economy Status in the United States, Chinese companies are required to pay a higher duty in dumping cases, which is discriminatory. Subjecting Chinese companies to counter-vailing duties would be a "double penalty." The United States should use international standards in determining whether or not China is a market economy.

#### RESPONSES FROM SECRETARIES GUTIERREZ AND PAULSON

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¶15. (SBU) Secretary Gutierrez stated that the United States is ready to discuss United States high-tech export controls but noted that Congressional approval would be required for any changes. On IPR seizures, Secretary Gutierrez said he is prepared to compare figures. The Secretary welcomed Bo's statement that China is willing to expand service imports. Turning to the acceptance of a petition for countervailing duties, Secretary Gutierrez asserted that the USG process is transparent and that we will communicate with the Chinese side so as to avoid any surprises. Secretary Gutierrez also

said he was willing to discuss further the Market Economy Status issue.

¶16. (SBU) Treasury Secretary Paulson responded by emphasizing the importance of opening the Chinese energy market, including Chinese energy companies, to foreign investment. Secretary Paulson reminded Bo that the Lenovo deal as approved and has been successful. The CNOOC experience in its attempted acquisition of Unocal, in contrast, was highly unusual. It was a contested deal, in which Chevron had already signed a contract, so it was to be expected that the case would be politically sensitive. China cannot claim it is open to services if foreign firms can only make small minority investments in Chinese companies, Secretary Paulson stated. Advocating the removal of investment caps, the Secretary said he does not know of a single joint-venture

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bank that has been globally competitive. Opening China to investment and services would not only help the trade deficit but would also help the entire Chinese economy to grow, Secretary Paulson emphasized.

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PARTICIPANTS

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¶17. (SBU) Participants in SED Session IV:

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#### United States Delegation

--Henry Paulson, Secretary of Treasury  
--Clark Randt, Jr., United States Ambassador to China  
--Michael Leavitt, Secretary of Health and Human Services  
--Samuel Bodman, Secretary of Energy  
--Carlos Gutierrez, Secretary of Commerce  
--Elaine Chao, Secretary of Labor  
--Susan Schwab, United States Trade Representative  
--Stephen Johnson, Administrator of the Environmental Protection Agency  
--Benjamin Bernanke, Chairman of the Federal Reserve  
--James Lambricht, Chairman and President of Ex-Im Bank  
--Daniel Sullivan, Assistant Secretary, Department of State  
--Andrew Steinberg, Assistant Secretary, Department of Transportation  
--Matthew Slaughter, Member of the Council of Economic Advisors

#### Chinese Delegation

--Wu Yi, Vice Premier  
--Jin Renqing, Minister of Finance  
--Ma Kai, Chairman of National Development and Reform Commission  
--Xu Guanhua, Minister of Science and Technology  
--Tian Chengping, Minister of Labor and Social Security  
--Liu Zhijun, Minister of Railways  
--Li Shenglin, Minister of Communications  
--Wang Xudong, Minister of Information and Industry  
--Bo Xilai, Minister of Commerce  
--Gao Qiang, Minister of Health  
--Zhou Xiaochuan, Governor of People's Bank of China  
--Li Changjiang, Administrator of General Administration of Quality Supervision, Inspection, and Quarantine  
--Zhou Shengxian, Administrator of State Environmental Protection Administration  
--Zhou Wenxiong, Chinese Ambassador to the United States  
--Xu Shaoshi, Deputy Secretary-General, State Council  
--Yang Jiechi, Vice Minister, Ministry of Foreign Affairs  
--Zhang Xiaoqiang, Vice Chairman, National Development and Reform Commission  
--Li Yong, Vice Minister, Ministry of Finance  
--Yi Xiaozhun, Vice Minister, Ministry of Commerce

--Hu Xiaolian, Vice Governor, People's Bank of China  
--Li Ruogu, Chairman of China Export-Import Bank  
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